

# **Q2 2023 Earnings Call Management's Prepared Remarks**

## **01 Opening (Presenter: Jillian Zeng)**

Thanks everyone for joining us on our second quarter 2023 earnings call today. The earnings release is now available on our IR website at <https://ir.ucloudlink.com> and via newswire services. I will give a brief introduction to our UCLOUDLINK management team.

Mr. Zhiping Peng is our co-founder and chairman of board of directors.

Mr. Chaohui Chen is our co-founder, director and chief executive officer.

Mr. Yimeng Shi is our chief financial officer.

Mr. Chaohui Chen, our co-founder and CEO, will begin with an overview of the Company's recent business highlights, which will cover the earnings presentation posted on our IR website. Mr. Yimeng Shi, our CFO, will then discuss Company's operational highlights and financial results.

Before we proceed, please note that this call may contain forward-looking statements made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. These forward-looking statements are based on management's current expectations and observations that involve known and unknown risks, uncertainties and other factors not under the company's control, which may cause actual results, performance or achievements of the company to be materially different from the results, performance or expectations implied by these forward-looking statements.

All forward-looking statements are expressly qualified in their entirety by the cautionary statements, risk factors and details of the company's filings with the SEC. The company does not assume any obligation to revise or update any forward-looking statements as a result of new information, future events, changes in market conditions or otherwise, except as required by law.

Please also note that UCLOUDLINK's earnings press release and this conference call include discussions of unaudited GAAP financial information and unaudited

non-GAAP financial measures. U-CLOUDLINK's press release contains a reconciliation of the unaudited non-GAAP measures to the unaudited most directly comparable GAAP measures. I will now turn the call over to our co-founder and CEO Mr. Chaohui Chen. Please go ahead.

## 02 Company Overview (Presenter: Chaohui Chen)

Thank you, Jillian. And good morning, everyone. Thank you for joining us on our second quarter 2023 earnings call today. We appreciate everyone's time.

We were pleased to have achieved positive cash flow from operations for a fifth consecutive quarter. During the quarter, we reported strong top line growth with total revenues of US\$22.0 million, a 21.9% increase from the prior-year period and the average daily active terminals continued to increase and once again reached a record high over 310,000.

During the second quarter of 2023, revenues from uCloudlink 1.0 international data connectivity services business ("uCloudlink 1.0 business") increased by 32.5% year over year to US\$9.0 million, and average daily active terminals from uCloudlink 1.0 business increased by 57.7% year over year, primarily as the result of the recovery in international travel. While outbound travel from China remained somewhat limited in the first half of 2023, Chinese tourists utilizing Roamingman brand services still have contributed an increasingly considerable amount to our international data connectivity services. Our unique 5G portable Wi-Fi terminals and the various data traffic packages from 4G to 5G are widely recognized by the market for the ability to elevate user experience across a broad audience, which will enable us to maintain our leading position in the global roaming market.

I am pleased to share a few recent developments in our 1.0 business. In July 2023, we launched the GlocalMe SIM card. This SIM card is backed by our patented cloud SIM technology, which allows our customers to freely purchase and use multiple global data plans as needed. As of launch, this GlocalMe SIM card covers 10 major

destination countries, including Japan, the United States and Australia, and we expect to gradually expand its availability to additional countries and regions. In addition, we are launching a pilot sale of a GPS tracking-enabled roaming portable Wi-Fi terminal that we believe will be the smallest one in the world. The innovative products range covering portable Wi-Fi, GPS tracking-enabled roaming terminals and GlocalMe SIM card, add to our ever-expanding uCloudlink 1.0 business portfolio of offerings, through which we help a global user base achieve a leading “zero-roaming” experience in various application scenarios to satisfy their cross-border data demands, driving comprehensive competitive advantages that enhance our business performance. We remain optimistic about the prospects of uCloudlink 1.0 business, and believe that this higher-margin business will continue to serve as a key growth driver into the future.

uCloudlink 2.0 local data connectivity services business (“uCloudlink 2.0 business”) maintained continuous development, which reported US\$2.2 million in revenues, up by 23.1% from US\$1.8 million in the second quarter of 2022. During this quarter, our upgraded Customer Premises Equipment (“CPE”), was tested commercially. This product enables seamless transition between fixed and mobile networks, serving as a substitute for traditional fixed-line broadband suitable for home and office Internet connection use. We are confident that the upgraded CPE will allow us to further gain market share in the fixed broad band (“FBB”) market.

What I discussed just now outlines our data connectivity services business. I would like to highlight U-CLOUDLINK’s PaaS/SaaS solutions, which is a line of business where we see great potential. On the IoT side, U-CLOUDLINK’s IoT modules will begin to be commercially embedded in the devices of a major mobile network operator in Japan within 2023, marking a significant expansion into IoT application

scenarios. Adding to the embedded IoT modules, the GPS tracking-enabled roaming portable Wi-Fi terminals and upgraded CPEs, these offerings will generate recurring PaaS/SaaS services revenues apart from data connectivity services revenue and sales of products. We look forward to applying our PaaS and SaaS solution to provide additional services, including Customer Management services, Emergency & security Communication Services and GPS Tracking Services, among others, expanding our user base and application scenarios, and contributing to the growth of our revenues.

During the quarter, we continued to prepare for the full initiation of our one-stop comprehensive marketplace APP, a centralized platform application that allows users to access our full portfolio of services. We believe that we are approaching the launch of one-stop marketplace APP, which will enable us to attract more users and customers beyond the users of portable Wi-Fi step by step. We remained confident in our team's capabilities to launch the APP in the near term.

In conclusion, we were pleased with the progress we've made on our growth initiatives, as well as the improved financial results we have achieved in the first half of the year. We are pleased to be at the forefront of innovation and expect to continue expanding our portfolio of offerings based on our innovative cloud SIM technology and HyperConn solution, which demonstrates our strong research and development capabilities, laying a solid foundation for future growth.

For the third quarter of 2023, U-CLOUDLINK expects total revenues to be between US\$23.5 million and US\$24.5 million, representing an increase of 29.1% to 34.6% compared to the same period of 2022. We will continue playing a significant part in integrating high-quality data connectivity experience into various life scenarios, and

we believe that our solutions truly enable our customers and users to live a more convenient and intelligent life, from ‘connected’ to ‘better connection’.

I will now turn the call over to our CFO Mr.Yimeng Shi.

### 03 Operational highlights and Financial Results (Presenter: Yimeng Shi)

Thank you, Mr. Chen. Hello everyone, I will go over our operational and financial highlights for the second quarter of 2023.

Average daily active terminals (DAT) measure the trend of customer usage over the period, reflecting our ongoing business performance. In the second quarter of 2023, average daily active terminals were 318,778 (7,386 owned by the Company and 311,392 owned by our business partners), up by 9.0% from 292,432 in the second quarter of 2022. The average DAT for our uCloudlink 1.0 and uCloudlink 2.0 businesses accounted for around 46.4% and 53.6% of total DAT, respectively, during the second quarter of 2023. Average daily data usage per terminal was 1.59 GB in June 2023.

Total revenues for the second quarter of 2023 were US\$22.0 million, representing an increase of 21.9% from US\$18.0 million in the same period of 2022. Revenues from services were US\$14.1 million, an increase of 25.2% from US\$11.2 million in the same period of 2022. Revenues from services as a percentage of total revenues was 64.1%, up from 62.5% during the same period of 2022.

During the second quarter of 2023, as a percentage of our total revenues, Japan contributed 43.0%, North America contributed 29.5%, Mainland China contributed 11.6% and other countries and regions contributed the remaining 15.9%, as compared to 38.1%, 39.2%, 1.4% and 21.3%, in the same period of 2022, respectively. The revenue from Mainland China increased significantly, primarily due to the recovery of international travel from the Chinese tourists utilizing Roamingman brand services.

Overall gross margin was 44.9% in the second quarter of 2023, as compared to 44.1% in the same period of 2022. Gross margin on services was 58.0% in the second quarter of 2023, as compared to 56.2% in the same period of 2022.

Excluding share-based compensation, total operating expenses were US\$7.3 million, or 33% of total revenues, in the second quarter of 2023, as compared to US\$7.3 million, or 41% of total revenues, in the same period of 2022.

We narrowed net loss significantly, to US\$0.9 million in the second quarter of 2023 compared to a net loss of US\$6.3 million in the second quarter of 2022. Adjusted EBITDA (non-GAAP) improved to US\$2.1 million during the second quarter of 2023, as compared to negative US\$1.0 million in the same period of 2022.

We achieved positive operating cash flow of US\$3.4 million during the second quarter of 2023, as compared to US\$2.5 million during the same period of 2022. We successfully achieved positive cash flow from operations for a fifth consecutive quarter, accumulating operating cash inflow of \$13.9 million through the five periods.

In the second quarter of 2023, we continued to improve our financial performance and we believe that we are well positioned to execute on our growth initiatives.

With that, operator, let's open it up for Q&A.

## 04 Q&A Session

**Jillian:**

Thank you once again for joining us today. If you have further questions, please feel free to contact U-CLOUDLINK's investor relations through the contact information provided on our website or contact our Investor Relations firm, the Equity Group. We look forward to speaking to you all again on our next quarterly call. Thank you.